

AUDITORS' AND CLIENTS' PERSPECTIVES TOWARD AUDIT QUALITY FACTORS IN INDONESIA: DO THEY DIFFER?

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AUDITORS' AND CLIENTS' PERSPECTIVES TOWARD AUDIT QUALITY FACTORS IN INDONESIA: DO THEY DIFFER?

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Abstract

The project aims to investigate the attributes of audit quality in Indonesia by considering input from groups of auditors and audit clients. Beside the facts of the important to consider the issue from different groups of stakeholders such as audit committee chairpersons, there have been very few published empirical studies of perceived audit quality in Indonesia from that group' perspectives. This study attempts to address the gap by identifying the major attributes that enter into the determination of audit quality in Indonesia based on the perspectives of different groups of auditors and clients. Survey questionnaires are sent to a random sample of the two groups. The result shows that there are significant difference perceptions between the groups.

Key words: Audit quality, audit quality factors, market perceptions of audit quality, competence, independence, relationship, service quality.

1. INTRODUCTION

Indonesia has committed to establish an ASEAN Economic Community (AEC) by 2015 along with other countries in the regions. It is expected that the AEC would facilitate the free flow of goods, services, skilled labour and, capital to the member of ASEAN countries (ASEAN, 2008). This, however, needs an integrated ASEAN capital market (Soesastro, 2005). In doing so, effective audit oversight across the whole ASEAN region is very important. The collaboration and coordination among audit oversight bodies in ASEAN will improve overall audit quality, enhance consistency of regulation and set common expectations of audit firms across the region as well as help form common understanding to tackle regional issues including root causes of risks to audit quality (ICPAS, 2013). Therefore, a study on audit quality in ASEAN countries is very timely.

In the research field, studies on how to define and measure audit quality, and of the factors that affect it, have been conducted widely. However, there is still no universal agreement regarding a definition of audit quality or audit measurement (Knechel et al., 2013). Researchers have adopted several approaches to explain audit quality. One of those approaches involves observing audit quality from the perspective of participants in the audit market. Understanding the factors that auditors perceive affect audit quality is important, since these factors can influence actual audit quality (Chang & Monroe, 1994). According to

Robbins et al. (2011), individual behaviours are often based on perceptions of what reality is, not on reality itself.

Research exploring the role of auditors in emerging markets is very rare and remains largely unexplored (Healy & Palepu, 2001). In Indonesia, audit quality has been questioned strongly after some corporate scandals involving large listed companies, such as *Kimia Farma*, *Indo Farma*, and *Bank of Century*, and involving local public accountants (Suyono, 2012). These scandals resulted in the Finance Ministry of Indonesia repealing the licenses held by some public accountants and public accounting firms.

To date, very few published empirical studies have investigated perceived audit quality in Indonesia. One exception was a study by Suyono (2012). He investigated audit quality factors based on perceptions of auditors in Indonesia. His study concluded that independence, experience, and accountability were factors affecting audit quality according to the auditors. However, prior studies on perceived audit quality conducted in the United States (US), the United Kingdom (UK), and Denmark, have investigated the issue from the perspective of different groups of stakeholders (such as auditees, owners, audit committee chairpersons, and loan officers). See, for example, Behn and Carcello (1997) and Nieschwietz and Woolley (2009). This study seeks to address the gap within the Indonesian context by identifying the major attributes that determine audit quality in that country. The study focuses on the perspectives of two participant groups in the Indonesian audit market: auditors and audit clients.

The main aim of this research is to investigate the determinants of audit quality in Indonesia.

This research will consider input from various groups of auditors and clients to identify attributes related to audit quality in Indonesia. Based on that research objective, the main research question is: what are the major attributes that enter into the determination of audit quality in Indonesia based on the perspectives of groups of auditor and clients.

As this study is conducted in Indonesia, which has different market characteristics, such as very few professionally qualified accountants (Tas-Anvaripour & Reid, 2002), then this study is expected will contribute to auditing and accounting research by providing additional

insights to audit quality. Therefore, practitioners and academics could have a broad framework in considering what the dimension of audit quality are, how differences can occur, and how these might be handled, especially in preparing for the AEC.

2. THEORETICAL FRAMEWORK

2.1. Audit quality and market perceptions

According to Duff (2004), studies on audit quality from behavioural perspectives intend to identify factors that are perceived by clients, auditors and users to be related to audit quality.

Some of the studies are summarised below.

Carcello et al. (1992) surveyed high-ranking auditors, preparers, and users in the US to compare their perceptions of underlying components of audit quality. Forty-one attributes of audit quality were identified from the literature. Participants were asked to evaluate the degree to which each attribute improved audit quality. The results showed that the four most important factors determining audit quality were: audit team and firm experience with the client; industry expertise; responsiveness to client needs; and compliance with the GAAS.

Sutton (1993) used groups of experienced auditors from two international accounting firms to develop and validate a set of key factors that influence the quality of the audit process. He showed that auditors' perceptions focused mainly on environmental factors (such as client preparedness, client rapport, staff expertise, and availability of total firm resources), rather than accounting issues.

Beattie and Fearnley (1995) examined audit quality attributes in the UK by surveying finance directors of 210 listed UK companies. Twenty-nine auditor characteristics identified from the literature were presented in the questionnaire. The exploratory factor analysis produced five main factors of audit quality: integrity of the firm; technical competence of the firm; quality of the working relationship with the audit partner; reputation of the firm; and technical competence of the audit partner.

Warming-Rasmussen and Jensen (1998) investigated how shareholders and financial journalists in Denmark perceived audit quality. They analysed whether financial reporting preparers and auditors appraise the attributes of quality differently. Their study sought to

⁷ identify a possible relationship between quality and confidence attributes. Fifteen attributes concerning quality and confidence were identified from ¹⁷ in-depth dialogues with four external ⁷ user groups and were presented in a set of questionnaires. The results showed that external users tended to perceive audit quality attributes as inspiring confidence in the auditor, and that moral and ethical aspects were the main quality factors.

Duff (2004) developed an audit quality model (AUDITQUAL) ⁵¹ based on the perception of auditors, clients, and users of financial statements. His model shows two factors of audit quality: technical quality and service quality. The factors consist of nine attributes: reputation, capability, independence, expertise, experience, responsiveness, ⁵⁰ non-audit services, empathy, and client service.

All of the preceding studies, however, were conducted before the implementation of the ¹⁴ Sarbanes-Oxley Act of 2002 (SOX) and the creation of the Public Company Accounting Oversight Board (PCAOB). The SOX was legislated on July 30, 2002 following some high-profile corporate scandals (Linck et al., 2009). The main point of SOX was to create the PCAOB, "a private-sector, nongovernmental body funded by the public companies and investment companies that benefit from independent audits" (Carmichael, 2004, p. 127). The PCBAO "fundamentally changed the audit industry" (Christensen et al., 2013, p. 3).

¹⁹ However, in 2009 Duff published a follow-on study that took account of changing perceptions of audit quality in the UK during a period of significant environmental change (including SOX). His study, based on new survey data, was conducted in February 2005. The study's results were compared to a dataset collected in February 2002. The results showed that the mean scores for technical audit factors (competence, relationship, and independence) fell from 2002 to 2005. However, there was no change in value for service qualities. The three parties' ratings of service qualities increased over the period. The work presented four higher-order factors for audit quality that differed from the previous study (nine important attributes). Duff (2009) suggested several possible reasons for these findings:

First, as the 2002 administration of AUDITQUAL was concurrent with the Enron/Andersen failure, respondents' higher ratings of technical-related factors may have reflected the financial community's shock at the failure of the regulatory

regime and the unprecedented downfall of a (then) big five auditor, Arthur Andersen. Second, the increases in service quality may reflect the greater marketing-orientation of modern audit firms, and consequent increase in audit expectations from auditees and investors. Third, it is possible that stakeholder groups feel more comfortable that audit quality is being maintained as a consequence of greater regulatory efforts, implemented subsequent to the 2002 administration of the inventory (Duff, 2009, p. 416).

Beattie et al. (2012) surveyed UK-listed company chief financial officers, audit committee chairs (ACCs) and audit partners in 2007 to obtain views on the impact of 36 economic and regulatory factors on audit quality post-SOX. Exploratory factor analysis reduced the 36 factors to nine independent factors: economic risk; audit committee activities; risk of regulatory action; audit firm ethics; economic independence of auditor; audit partner rotation; risk of client loss; audit firm size, and ISAs and audit inspection. It seems that post-SOX regulations have introduced additional factors to the factors influencing audit quality.

Another post-SOX study conducted by Christensen et al. (2013) surveyed audit professionals' and investors' insights into audit quality in the current regulatory and inspection environment. They found that audit professionals described audit quality as related to compliance with professional auditing standards. Investors relate audit quality with the individual characteristics of the auditors and audit teams that perform the audit.

Research on the perceptions of audit partners, audit committees and investment analysts on the factors that influence audit quality has also been conducted in developing countries. For example, Jaffar et al. (2005) examined the potential factors that influence the quality of audits from the perceptions of these three parties in auditing in Malaysia. The results differed from those of studies in developed countries. While results in developed countries showed more focus on environmental factors of auditing and capability of auditors/audit firms, results from Malaysian respondents showed more focus on auditor's knowledge in accounting and auditing standards as well as the client's industry.

New factors, new results, and different considerations have been found in studies of the current auditing environment. Survey responses provide empirical evidence regarding many audit quality indicators. Each group's responses identify different audit quality factors.

Hence, it is valuable to conduct further research that considers the perspective of different participants in the current audit market.

In conclusion, audit quality studies on the perceptions of participants in the audit market have captured many factors and factors of audit quality from different perspectives. A comprehensive study by Duff (2004; 2009) has presented audit quality factors drawn from the extant audit quality and service quality literature in one model, the AUDITQUAL model. For this reason, AUDITQUAL is chosen for this study.

2.2.The AUDITQUAL model

Duff (2004; 2009) reviewed literature on perceived audit quality. He summarised attributes of audit quality into nine distinct dimensions: reputation; capability; responsiveness; independence; non-audit services; empathy; client service; expertise; and experience. These could be reduced to four higher-order factors: competence, independence, relationship, and service qualities. He presented them as the AUDITQUAL model.

The first three of these factors are considered technical qualities. Competence includes dimensions such as reputation, capability, and assurance that relate to perceptions of the auditor to detect errors. Independence is conceptualized as a uni-dimensional factor, while the relationship factor is seen to have two dimensions: expertise and experience. The fourth factor, service qualities, has three dimensions: empathy, responsiveness, and non-audit services. Table 1 explains the dimensions of audit quality suggested in the AUDITQUAL model. Figure 1 illustrates the four-factor model suggested by Duff (2009).

2.3.Auditors and clients perceptions of audit quality

Providers of audit services (audit firms/auditors) are influenced by at least four key environmental factors: political/legal factors; economic factors; socio-cultural factors; technological factors (Duff 2004). These factors have very significant influences on audit organisations or professions. For example, globalisation is one of the economic factors that could lead to the changing profile of investors. This change requires service providers (audit firms) to offer global services that match the new market. In response, research considering audit quality has tried to view the quality of audit services from different perspectives.

From the provider perspective (auditors), factors that are perceived to be important determinants for audit quality focus mainly on audit-team factors other than firm-wide factors (Schroeder et al., 1986; Carcello et al., 1992; Sutton, 1993). This indicates that the main concern for auditors regarding the quality of audit is whether they are capable of producing high quality audits.

Specifically, Duff (2009) showed that audit quality attributes are viewed differently by different market participants. Auditors rated all major audit quality factors higher than two other group participants: auditees and investors. They also considered that competence and independence factors were the main attributes of audit quality. Therefore, from the auditors' perspective, technical aspects of audit are more important than other aspects for quality of audit.

This can be explained by the expectation for auditors to be competent and independent. For example, DeAngelo (1981) suggested that two important factors determine audit quality: the auditor's capacities in conducting an audit (competence) and the independence of the auditor over the client. Lee and Stone (1995) also considered competence and independence to be necessary ingredients for a successful audit, but in a sequenced way. They defined competence as a state of expertise that was sufficient to achieve explicit audit objectives. They saw auditor competence as a prior condition for auditor independence. They argued that auditors cannot choose to be independent unless they are competent.

However, audit quality factors can differ from the clients' perspective. Carcello et al. (1992), for example, examined the perceptions of financial statements preparers, along with auditors and users, on audit quality attributes. Their results suggested that clients (represented by company controllers) considered "audit firm responsiveness to client needs" to be a more important factor for audit quality than other factors. Meanwhile, audit partners valued these attributes to a lesser degree. Behn and Carcello (1997) also investigated the relationship between audit quality and client satisfaction. They surveyed controllers and found the most common suggestions from them were for auditors to become involved proactively in the client's business and for them to reduce audit team turnover. These studies showed that,

from the clients' point of view, concern over clients' needs or clients' business affairs are more important than other audit issues.

Thus, these discussed studies show different perceptions of factors that might influence audit quality. The differences were between the audit market participants and also between nations.

2.4. Auditing studies in Indonesia

Christiawan (2004) summarized studies on audit quality in Indonesia. He found that audit quality is associated with competence and independence of auditors - two factors suggested by DeAngelo (1981). Auditor competence can be influenced by the education and experience of auditors, whereas auditor independence can be influenced by factors such as conflict of interest and relationships between auditors and clients. Yuniarti (2011) distributed a questionnaire among auditors in Bandung, Indonesia and found that audit firm size did not significantly affect the quality of audit in this context. She also found that higher audit fees would increase audit quality.

Other factors found to be associated with audit quality in Indonesia are due professional care and accountability (Singgih & Bawono, 2010). Due professional care is an attitude of auditors that maintains their critical thinking in assessing audit evidence. Accountability is the ability of auditors to be accountable for all their judgments and decisions. Singgih and Bawono's study used survey questionnaires randomly distributed to all auditors working in Big Four firms in Indonesia. They found that the two factors (due professional care and accountability) simultaneously and partially influenced audit quality.

Auditor tenure is an important consideration in assessing audit quality in Indonesia. Mandatory rotation is argued to be one way to protect auditor independence. Some studies, however, provide conflicting pointers to the influence of audit tenure. Giri (2010), for example, explored published financial statements of companies from manufacturing industries listed on the Indonesian Stock Exchange (IDX). He found that the long tenure of audit firms did not decrease the quality of audit. Hartadi (2012) also found that statistically there was no significant effect of audit rotation on audit quality. His main explanation for this

result was that market participants were reluctant to explore further whether the auditor who issued the opinion on the audited financial statements had actually been rotated or not. Similarly, a study of Suprpto and Suwardi (2013) concluded that audit rotation and audit tenure have no effect on audit quality. These studies suggested that the new law issued (Decree No. 17) did not really provide a positive practical outcome. Similarly, Siregar et al. (2012) investigated the effects of auditor rotation and audit tenure (of the public accountant and the public accounting firm) on audit quality (before and after the implementation of the mandatory auditor rotation). They showed that mandatory auditor rotation did not increase audit quality. They suggested that regulators need to consider revising the regulation relating to auditor tenure and rotation.

To conclude, audit quality research in Indonesia has focused mainly on competence and independence attributes of audit quality, and has used secondary data. Primary data that provides other perceptions will add more value to the study of audit quality in Indonesia. This study responds to this by further investigating the perceptions of audit quality from the different perspectives of auditors and auditees. The study results provide insights into what constitutes a more complete view of audit quality in Indonesia. Rather than viewing audit quality as a singular measure or construct, the literature review has provided frameworks suggesting that audit quality is a multi-faceted construct (Knechel et al., 2013).

3. RESEARCH METHOD

The research question required descriptions of audit quality attributes from the perspectives of auditor and client groups of participants in Indonesia. Therefore, this study used survey questionnaires to collect data. In quantitative research design "survey research provides a quantitative or numeric description of trends, attitudes, or opinion of a population by studying a sample of that population" (Creswell, 2009, p. 12). This quantitative procedure is intended to provide a result of the AUDITQUAL factors in Indonesia. This is important because there is no published study on this subject.

3.1. Survey participants

Audit clients were identified from the ⁴⁴IDX website 2010 (<http://www.idx.co.id/>). The IDX is the Self-Regulatory Organization (SRO) providing oversight of Indonesian capital markets. The IDX acts as a single bourse that facilitates trading in equities, fixed income, and derivative instruments in Indonesia. However, as ³⁰regulated by Law No.8 of 1995 concerning the ¹⁶capital market, the IDX is supervised by an agency under the Ministry of Finance of the Republic of Indonesia, the Indonesia Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK). This agency is obligated to supervise the daily activities of the capital market in Indonesia. It executes policies and technical standards in the field of financial institutions. BAPEPAM-LK provides information regarding the capital market in Indonesia, including the supporting institutions and professions such as auditors. Participants for the auditor group were identified from its database.

3.1.1. Auditors

The target population for the auditor group comprised all 395 auditors who ¹²were members of the Indonesian Institute of Certified Public Accountants (IICPA) and who were listed in the directory of BAPEPAM-LK in July 2011.

To attain a satisfactory response rate for the survey questionnaires, a census survey was conducted, collecting data from the entire population. Green et al. (1988) explained that the nature of the subject within the accounting field usually leads to a response rate of between 10% and 30%. Therefore, given the lowest response of 10%, the return of the questionnaire was expected to reach a minimum of 39 respondents (10% of 395 in the auditor population). This was the lowest number that could be tolerated. This consideration of population and sample units was also applied to the other group: clients. Using the census survey, the total number of sample units for the auditor group was the same as the target population: 395 auditors. All questionnaires were completed anonymously and 134 usable responses were returned, a response rate of 34%.

3.1.2. Clients

The target population for the client group comprised all audit committee members of the 420 listed companies on the IDX in December 2010. Of that number, 66 companies, who were investor and creditor institutions, were excluded as they are the users of financial reports. Therefore, the total number of sample units for the client group was 354 (420 less 66) companies. Each company was represented by one audit committee member. All questionnaires were completed anonymously and 74 usable responses¹ were returned, representing a response rate of 21%.

3.2. Questionnaire

⁴³ The survey questionnaire sought to elicit empirical evidence of the attributes of audit quality perceived by participants. The AUDITQUAL questionnaire developed by Duff (2004) was used to facilitate data collection.

⁴² The questionnaire was developed in English and was translated subsequently into Indonesian. The questionnaire contained five sections to facilitate respondents' completion. The first section included items relating to audit firm factors. The second section contained items related to engagement partner factors. The third section contained questions relating to audit team factors. The fourth section contained an open-ended question for respondents to comment on audit quality. The last section contained general questions about the background details of each respondent, such as work experience and type of company they were employed by.

Questionnaires were distributed in November 2011 and collected from participants from that time until March 2012. Follow-up reminder phone calls were made one week after the first questionnaire was sent. The same questionnaire was sent again to respondents who had not replied to the first questionnaire four weeks after the first posting. To identify non-responders, there were separate response envelopes: one to confirm response and one with the questionnaire. These will make the identity of respondents remained anonymous.

However, there were questionnaire characteristics (e.g. different paper colour) to identify the group to which each respondent belonged.

¹² 3.3. Data analysis techniques

Analysis of the quantitative data collected from the survey questionnaire used the statistical analysis software SPSS, version 20. The descriptive statistics were ascertained for mean scores ⁴¹ and standard deviations of audit quality factors for each group. A one-way ANOVA with a post-hoc test was conducted to determine where the differences between the groups lay.

4. RESULTS

Table 2 provides the mean scores of auditors' responses to the nine audit quality dimensions based on the AUDITQUAL questionnaire. A score of 1 signifies not important and a score of 5, most important. The factor of which the dimension is a component is also provided. The table shows that auditors in Indonesia rated all non-service quality dimensions (capability; reputation; assurance; independence; expertise; and experience) to be more important than the service quality dimensions (responsiveness; empathy; and non-audit services).

Table 2 shows that auditors rated capability as more important than reputation for audit quality (the mean scores were 4.29 and 4.26, respectively). Capability is the ability of the auditors to conduct work with high professional standards. Reputation is the standing an auditor enjoys in the market. Capability relates to the engagement partner and the audit team staff, while reputation relates to the audit firm. Therefore, the Indonesian auditors indicated that the capability of auditors to conduct their work with high ethical standards matters more ⁴⁰ for audit quality than the reputation of the audit firms in the market.

Auditors in Indonesia placed greater importance on expertise than assurance (the mean scores were 4.09 and 3.95, respectively). In the audit quality literature, auditors' reputation, capabilities, and assurance ⁶ are the most important aspects of audit quality. They represent the competence factors of auditors. Assurance refers to the processes the auditor has in place to assure a high quality audit (such as arranging regular meetings with clients). Expertise is a relationship factor. This reflects the possession of relevant specialist

knowledge by the auditor. Therefore, the finding reveals that, for Indonesian auditors, it was more important to have relevant specialist knowledge of the clients' industry than it is to give more attention on things such as regularly meeting with clients.

Another relationship factor is experience. This considers audit tenure. Experience was rated as more important (mean 3.83) for audit quality than independence (mean 3.75).²⁹ Independence is the foundation of the auditing profession. However, the results show that auditors in Indonesia placed more emphasis on the experience they had with auditees than they did on their independence in conducting the audit.

Responsiveness, non-audit services, and empathy dimensions are service quality factors in the AUDITQUAL model. According to the model, auditors are better able to deliver expected audit services if they understand their customers' (clients') expectation. However, the results of this study show that the service quality dimensions were not regarded as essential for audit quality by Indonesian auditors. These dimensions were given relatively low scores (means ranged from 3.03 to 3.39).

⁴ Knechel et al. (2013, p. 386) argued that "Perception of audit quality can depend very much on whose eyes one looks through". Auditors, as the ones who perform audits, may emphasize the tasks required by the firm's audit work brief. Thus, completing all tasks satisfactorily may be defined by auditors as achieving a high audit quality. This view considers the production of audits in terms of inputs and outputs supplied by the auditor alone, without considering the client-based factors such as client preparedness, client rapport, and client reaction. With this view, suggested DeAngelo (1981), the quality of audit services can be explained mostly as the joint probability of an auditor discovering a breach in the client's accounting system and reporting the breach.³⁹ Similarly, auditors in Indonesia highlighted the importance of the non-service quality dimensions, such as capability, expertise and independence. These technical concerns are considered to be important factors for audit quality since they provide auditors with the ability to find any "breach" in clients' financial statements and report those breaches. Prior studies have identified factors perceived by auditors as influencing audit quality to be related to either audit-team factors, engagement-partner factors or audit-firm factors. Thus,

in the questionnaire, items were categorised into these three factors. The results indicate that auditors in Indonesia believed that audit-team factors were more important than audit-firm factors. For example, capability (an audit-team related factor) ranked higher than reputation (an audit-firm related factor). Therefore, for auditors in Indonesia, the engagement partner actively involved throughout the audit process will more likely influence the quality of audit than the good reputation the audit firm enjoys in the audit market. This suggests that high quality audits need not be the exclusive domain of the large audit firms that normally enjoy a good reputation in the market.

Another audit-firm related factor included in the survey questionnaire was “the threat of litigation”. This factor is assumed to increase the motivation to supply high quality audits (Frantz, 1999). The ¹⁸ quality of an audit may not be observable at the time the audit is contracted or performed. Thus, the number of subsequent auditors' litigations can be a sign of audit quality. The results show that auditors in Indonesia rated this audit-firm factor (the threat of litigation) to be less important than the audit-team factors. For example, the engagement partner is more concerned about ¹¹ what is happening within the client's organization than whether the audit firm has been found negligent in litigation or not. This result can be explained in the context of relatively low-level law enforcement in Indonesia. Lack of strong law enforcement and also low penalties for violations committed by public accountants in Indonesia are evident in the fact that no accounting firm has been sued for substandard work by companies, shareholders, or third parties in Indonesia (Siregar et al., 2012). Thus, it is understandable that Indonesian auditors did not perceive litigation as an important factor for audit quality.

Table 3 provides the mean results of client responses with regard to the nine audit quality dimensions on the AUDITQUAL questionnaire. The table shows that clients in Indonesia did not rate all the technical dimensions as more important than the service quality dimensions. Responsiveness and non-audit service are the service quality factors that were rated higher than independence (technical quality factor). The highest mean score was for the reputation dimension (competence factor).

After reputation, the dimension that ranked second in importance was capability. Experience (mean 3.80) and expertise (mean 3.68) ranked third and fourth, respectively, in terms of their perceived importance by clients. Experience and expertise are two dimensions that form the relationship factor. Expertise and experience are audit quality dimensions relating to clients. They show how expert and knowledgeable auditors are about their clients' industry, and how long auditors have been working with clients. Therefore, it is not surprising that clients regarded these two dimensions as more important than the fifth ranked factor, assurance (mean 3.55), which refers to the processes the auditor has in place to assure a high quality audit (e.g. frequent communication between the audit team and audit committee).

Another important finding related responsiveness and independence. Independence (mean 3.05) scored as less important than responsiveness (mean 3.42). This finding is understandable since clients would normally expect good responsiveness from auditors. This result was anticipated, arguing that audit committees would rate independence as the least important dimension for audit quality.

The lowest mean score for audit quality, according to the client group, was empathy (mean 2.98). This dimension refers to the degree of understanding the auditor demonstrates with the challenges that auditees face. For example, auditors provide the client with personal attention and emphasize that they have the client's best interests at heart. This is the expectation of audit quality from the clients' point of view. However, the results show that clients in Indonesia did not expect such empathy from auditors. It seems that they placed more emphasis on auditors' responsiveness and the non-audit services provided by auditors than on auditors' empathy.

Previous research indicated that audit clients tend to rate the service quality dimension higher than the technical quality (Duff, 2004; 2009). The results of this study show the same tendency. Ismail et al. (2006, p. 739) explained that "service quality to be a very important consideration for public listed companies when choosing or looking for a new audit firm to act as their auditor". They argued that there is a strong probability that public listed companies would use the same audit firm for their non-audit services if they were satisfied

with the quality of the service provided. Behn and Carcello (1997) found a significant and positive relationship between audit service quality attributes (such as responsiveness to client needs; effective and ongoing interaction with the audit committee; and industry expertise) and client satisfaction. Therefore, to satisfy client expectations, audit firms may benefit from focusing their efforts on service quality attributes as these attributes were found to be associated with client satisfaction.

The findings from clients in Indonesia seemed to reflect those of previous research studies. They rated responsiveness to be more important than independence. Responsiveness in the AUDITQUAL instrument relates to the ability of the auditor to tailor their service to auditee needs. This includes factors such as the audit firm being willing to be flexible when scheduling the timing of audit visits, or the audit firm being skilful in devising accounting treatments that generate the results that management wishes to obtain. All these factors were emphasised by clients in Indonesia.

To compare the results between groups, the one-way ANOVA with the post-hoc test assessed whether auditors and clients had significantly different views regarding audit quality dimensions. The results exhibited in Table 4 reveal that auditor and client views were significantly different in five dimensions: capability; assurance; independence; expertise; and reputation. A greater importance was placed on the capability dimension by auditors. This reflects the auditors' concern about their competence, ethical standards, and their understanding of the client's organization. They expected to be recognized for their capabilities. Meanwhile, clients placed greater importance on the reputation dimension. Clients indicated that auditors should have a good reputation in the market. One factor that could influence audit-firms' reputation, as tested in the survey, was "the number of auditors' litigations". Clients needed to ensure that the audit firm had not been found negligent in its performance, as evident in any litigation against it. Further, the auditors scored the independence dimension higher than the clients. This shows the auditors' concern regarding their independence in conducting work. Auditors also believed that it was very important to maintain their expertise regarding their clients' industry.

5. CONCLUSION, IMPLICATIONS AND LIMITATION

The findings indicate that the most important audit quality dimension for auditors was capability (part of the competence factor), while the clients regarded reputation (still part of the competence factor) as the most important dimension for audit quality. The findings also suggest that the two participant groups in Indonesia had different perspectives on almost all audit quality factors.

As the study has stressed the important of capability factor for audit quality in Indonesia from auditors' perspective, an accounting firm will need to attract, retain, and develop high quality staffs. Therefore, this finding is important for educators to provide 'good quality people' so that the firm could deliver high quality audit to the stakeholders as well as a good service quality to the clients.

First limitation relates to possible sample bias. With regard to representativeness, the sample was limited to auditors and clients in the IDX in 2011 and 2012. However, the findings of this study may not be generalizable to the Indonesian audit markets. Although the sample size was adequate, it was still too small to enable generalization to the Indonesian audit market, particularly as many companies are not listed on the IDX. Thus, to enhance the generalizability of the study findings, further studies using greater sample sizes are recommended. In addition, selecting specific audit segments, such as small-medium enterprises, might provide deeper insights.

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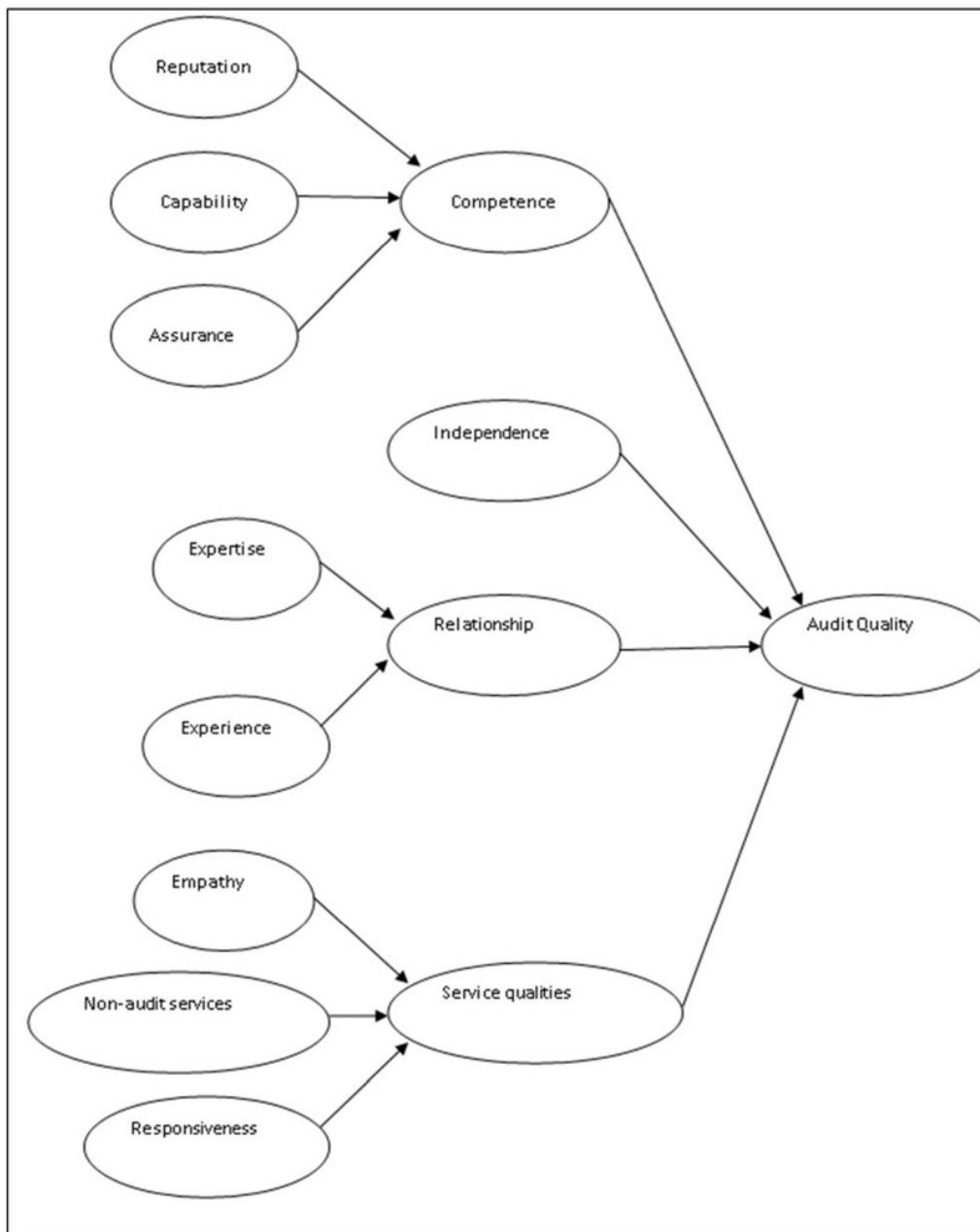
APPENDIX

Table 1. Dimensions of audit quality in the AUDITQUAL model

Dimension	Definition	Example of Item
Reputation	The standing the auditor enjoys in the market as a reputational intermediary	"The audit firm operates to the highest standards of integrity"
Capability	The ability of the auditor to conduct the work	"The engagement partner has high ethical standards"
Assurance	Those processes the auditor has in place to assure a high quality audit	"The engagement partner arranges regular meetings with the client's key staff to identify issues of concern"
Independence	The objectivity and willingness of the auditor to report any breach in the client's accounting system	"The audit fee paid by the client does not represent more than 10% of the total audit fees controlled by the engagement partner"
Expertise	Possession of relevant specialist knowledge by the auditor	"The audit firm undertakes research into the client's industry"
Experience	The experience the auditor has with the auditee	"The engagement partner has been performing the audit for the past three years"
Empathy	The degree of understanding the auditor has with the challenges the auditees face	"The engagement partner is pro-active and contributory (e.g. suggests potential acquisition targets)"
Responsiveness	The ability of the auditor to tailor their service to auditee needs	"The audit firm is willing to be flexible when scheduling the timing of audit visits"
Non-audit services	The ability of the auditor to be able to offer other accounting-related services	"The audit firm is able to supply additional tax services"

Source: Duff (2009, p.405)

Figure 1. The four-factor model of audit quality



Source: Duff (2009)

Table 2. Auditors' responses to the AUDITQUAL questionnaire

Audit Quality Dimension (Factor)	Auditor (n=134)	
	Mean	Standard deviation (SD)
Capability (Competence)	4.29	0.36
Reputation (Competence)	4.26	0.37
Expertise (Relationship)	4.09	0.42
Assurance (Competence)	3.95	0.47
Experience (Relationship)	3.83	0.61
Independence (Independence)	3.75	0.50
Responsiveness (Service quality)	3.51	0.43
Non-audit services (Service quality)	3.39	0.68
Empathy (Service quality)	3.03	0.77

Table 3. Clients' responses to the AUDITQUAL questionnaire

Audit Quality Dimension (Factor)	Client (n=74)	
	Mean	Standard deviation (SD)
Reputation (Competence)	4.07	0.48
Capability (Competence)	3.84	0.54
Experience (Relationship)	3.80	0.73
Expertise (Relationship)	3.68	0.66
Assurance (Competence)	3.55	0.66
Responsiveness (Service quality)	3.42	0.28
Non-audit services (Service quality)	3.21	0.58
Independence (Independence)	3.05	0.50
Empathy (Service quality)	2.98	0.60

Table 4. AUDITQUAL dimensions that are significantly different between groups

Auditors and clients groups		
No	Audit Quality Dimensions	Significance
1	Capability	.000
2	Assurance	.000
3	Independence	.000
4	Expertise	.000
5	Reputation	.011

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